Legislative Audit Division

State of Montana

Report to the Legislature

November 2005

Financial Audit

For the Fiscal Year Ended June 30, 2005

Montana Board of Housing

Department of Commerce
A Component Unit of the State of Montana

This is our financial audit report on the Board of Housing (Board) for the fiscal year ended June 30, 2005. The objectives of our financial audit included determining if the Board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 2005, with comparative combined totals at and for the period ending June 30, 2004.

The audit report contains no recommendations to the Board.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

05-07

FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report, which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Joe Balyeat, Vice Chair	Representative Dee Brown
Senator John Brueggeman	Representative Hal Jacobson
Senator Jim Elliott	Representative Christine Kaufmann
Senator Dan Harrington	Representative Scott Mendenhall
Senator Lynda Moss	Representative John Musgrove, Chair
Senator Corey Stapleton	Representative Janna Taylor

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

November 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the Financial audit of the Montana Board of Housing, a component unit of the State of Montana, for the fiscal year ended June 30, 2005. The objectives of this audit include determining if the financial statements for fiscal year 2004-05, with comparative financial amounts for fiscal year 2003-04, present fairly the Montana Board of Housing's financial position at June 30 for each fiscal year and the results of its operations for the fiscal years then ended. We also tested compliance with laws that have a direct and material effect on the financial statements. Additional compliance testing for the program is included in our biennial financial-compliance audit of the Department of Commerce.

We made no recommendations to Montana Board of Housing in the current or prior audit reports. On page A-1, you will find the Independent Auditor's Report followed by the Management's Discussion and Analysis, the financial statements and accompanying notes. The Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board. As disclosed in the Independent Auditor's Report, we did not audit the information and express no opinion on it. We issued an unqualified opinion on the financial statements, which means the reader can rely on the information presented.

The Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. The Montana Board of Housing's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the state of Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs and working in partnership with other housing providers throughout Montana.

In addition to the annual financial audit of the board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the board issues bonds. We have also performed agreed-upon procedures at selected Board of Housing loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and to determine compliance with contract requirements.

We thank the Board of Housing and its staff and the Department of Commerce staff for their cooperation and assistance during the audit. The board's response to our audit is on page B-1.

Respectfully submitted,

/s/ Scott A Seacat
Scott A. Seacat
Legislative Auditor

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@mt.gov

Appointed and Administrative Officials

Montana Board of Housing			Term Expires
	Bob Thomas, Chair	Stevensville	2007
	Judy Glendenning, Vice Chairman	Helena	2007
	J.P. Crowley, Secretary	Helena	2009
	Audrey Black Eagle	Lodge Grass	2009
	Susan Moyer	Kalispell	2007
	Jeff Rupp	Bozeman	2009
	Betsy Scanlin	Red Lodge	2009

Administrative Officials:

Department of Commerce	Tony Preite, Director
Board of Housing	Bruce Brensdal, Executive Director
	Charles Nemec, Accounting and Finance Manager
	Mat Rude, Multifamily Program Manager
	Nancy Leifer, Single Family Program Manager

For further information on the Montana Board of Housing, contact:

Bruce Brensdal, Executive Director
PO Box 200528
Helena MT 59620-0528
(406) 841-2840
e-mail: bbrensdal@mt.gov

Members of the audit staff involved in this audit were Jennifer Erdahl, John Fine, Geri Hoffman, Cindy Jorgenson, and Melissa Soldano.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

<u>INDEPENDENT AUDITOR'S REPORT</u>

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2005, and 2004, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2005, and 2004, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the financial statements, but supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Combining Statement of Net Assets as of June 30, 2005, and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining Statement of Cash Flows for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

/s/ James Gillett
James Gillett, CPA
Deputy Legislative Auditor

October 19, 2005

Room 160, State Capitol Building, PO Box 201705, Helena MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@mt.gov

The Montana Board of Housing
Management's Discussion and Analysis,
Financial Statements and Notes

Management's Discussion and Analysis

Year Ended June 30, 2005

This section of the Montana Board of Housing's (MBOH's) annual financial report presents our discussion and analysis of the agency's financial performance during the fiscal year ended June 30, 2005. Please read this section in conjunction with the financial statements and accompanying notes.

Financial Highlights

- 1,745 single-family mortgages were originated for $162 million.
- 1,318 single-family mortgages were prepaid for $79 million.
- One multi-family mortgage was originated for $260,000.
- One multi family mortgage paid off for $1.4 million.
- Total new debt issued was $216 million.
- Total debt retired was $82 million.
- Total outstanding debt increased from $632 million to $766 million.
- $2,125,000 of Low Income Tax Credits were allocated providing approximately $17 million of equity to produce or preserve 221 units of affordable rental housing.
- 17 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 61. Since its inception the RAM program has assisted 115 elderly households.

Overview of the Financial Statements

The MBOH is a self-supporting entity using no general fund appropriations to operate. The MBOH is classified as an enterprise fund, that is, a fund which is financed and operated in a manner similar to a private business enterprise.

The Net Assets – Restricted for Bondholders represent bond program funds that are pledged as collateral for the bondholders and are restricted by federal tax law to costs directly related to carrying out qualifying housing programs, qualifying mortgages or paying off bonds. These funds are therefore not available for use for other non-housing activities.

The financial statements are designed to provide the stakeholders of the MBOH, our citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the finances of the organization and to demonstrate our accountability for the resources with which we are entrusted.

Financial Analysis
Change in Net Assets and Operating Income
Years ended June 30, 2005, 2004 and 2003

			2005		2004		2003
Assets:							
Current Assets	(1)	$	142,016,458	$	68,446,646	$	56,233,674
Noncurrent Assets	(2)	$	766,710,343	$	699,241,149	$	703,251,777
Total Assets		$	908,726,801	$	767,687,795	$	759,485,451
Liabilities:							
Current Liabilities		$	14,540,433	$	11,936,674	$	14,328,690
Noncurrent Liabilities	(3)	$	756,226,009	$	624,197,098	$	615,626,922
Total Liabilities		$	770,766,442	$	636,133,772	$	629,955,612
Net Assets:							
Invested in Capital Assets		$	80,881	$	75,617	$	113,761
Restricted		$	137,879,479	$	131,478,406	$	129,416,078
Total Net Assets		$	137,960,360	$	131,554,023	$	129,529,839
Operating Revenue:							
Interest on Loans		$	37,146,816	$	36,103,048	$	40,852,401
Earnings from Investments	(4)	$	10,967,626	$	6,184,388	$	11,955,945
Fees and Charges		$	751,260	$	732,101	$	524,672
Total Operating Revenue		$	48,865,702	$	43,019,537	$	53,333,018
Operating Expenses:							
Bond Expenses		$	37,837,519	$	36,897,582	$	41,205,955
Servicing Fees		$	2,376,194	$	2,157,072	$	2,301,388
General and Administrative	(5)	$	2,245,652	$	1,940,699	$	1,852,576
Total Expenses		$	42,459,365	$	40,995,353	$	45,359,919
Operating Income		$	6,406,337	$	2,024,184	$	7,973,099

Discussion of Changes between 2005 and 2004

(1) Current assets increased by $73,569,812. This is due to $74,598,378 of funds being held to acquire new mortgages in Series 2005 A. The 2005 A bonds were issued on May 17, 2005.

(2) Noncurrent assets increased by $67,469,164 which is largely attributable to the Mortgage Loans Receivable increase of $63,625,552. The increase in mortgages loans is the result of normal operations.

(3) Noncurrent Liabilities increased $132,028,911 which is wholly attributable to increased Bonds Payable caused by new bonds issued by the the board during the year.

(4) Earning from investments increased $4,783,238 due to a higher interest rate environment and an unrealized gain of $2,906,138 in FY 2005.

(5) General and Administrative expenses increased $304,953 largely due to federal assistance administered by the board on behalf of local organizations and new computer software.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	FY 2005	FY 2004
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 5,771,588	$ 7,264,131
Investments	119,525,558	46,340,278
Mortgage Loans Receivable	11,957,430	10,584,633
Interest Receivable	4,519,714	4,075,113
Due from Primary Government	5,237	1,073
Due from Other Governments	32,639	
Prepaid Expense	208,810	181,418
Total Current Assets	$ 142,020,976	$ 68,446,646
Noncurrent Assets		
Investments	$ 96,821,850	$ 94,134,509
Mortgage Loans Receivable	662,372,983	598,746,710
Deferred Bond Issuance Costs, Net	7,435,350	6,284,313
Capital Assets, Net	80,881	75,617
Total Noncurrent Assets	$ 766,711,064	$ 699,241,149
TOTAL ASSETS	$ 908,732,040	$ 767,687,795
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 461,019	$ 335,522
Due to Primary Government	25,114	26,777
Due to Other Component Unit	150	4,873
Due to Other Government	32,639	
Property Held in Trust	3,255	683,005
Accrued Interest - Bonds Payable	3,656,257	3,003,280
Bonds Payable, Net	9,855,000	7,781,560
Arbitrage Rebate Payable to U.S. Treasury Department	443,233	47,955
Accrued Compensated Absences	69,004	53,702
Total Current Liabilities	$ 14,545,671	$ 11,936,674
Noncurrent Liabilities		
Bonds Payable, Net	$ 756,724,488	$ 624,673,559
Deferred Refunding Costs	$ (1,365,779)	(1,500,335)
Arbitrage Rebate Payable to U.S. Treasury Department	818,850	975,054
Accrued Compensated Absences	48,450	48,820
Total Noncurrent Liabilities	$ 756,226,009	$ 624,197,098
TOTAL LIABILITIES	$ 770,771,680	$ 636,133,772
NET ASSETS		
Invested in Capital Assets, Net	$ 80,880	$ 75,617
Restricted for Bondholders:		
Unrealized (losses) gains on investments	4,564,519	1,574,795
Single Family Programs	85,678,849	79,865,024
Various Recycled Mortgage Programs	33,440,493	37,136,710
Multifamily Programs	8,710,759	8,415,832
Multifamily Project Commitments	225,441	235,011
Reverse Annuity Mortgage Program	2,634,845	1,830,631
Restricted for Affordable Revolving Loan Program	2,624,574	2,420,403
TOTAL NET ASSETS	$ 137,960,360	$ 131,554,023

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	FY 2005	FY 2004
OPERATING REVENUES		
Interest Income - Mortgage Loans	$ 37,146,816	$ 36,103,048
Interest Income - Investments	8,061,488	8,415,136
Fee Income	219,119	214,712
Federal Financial Assistance	403,825	251,451
Net Increase (Decrease)		
in Fair Value of Investments	2,906,138	(2,230,748)
Grants and Contributions	117,539	265,625
Other Income	10,777	313
Total Operating Revenues	$ 48,865,702	$ 43,019,537
OPERATING EXPENSES		
Interest on Bonds	$ 36,298,463	$ 34,848,147
Servicer Fees	2,376,194	2,157,072
Contracted Services	575,740	616,917
Amortization of Bond Issuance Costs	553,586	508,279
General and Administrative	1,552,373	1,323,782
Arbitrage Rebate Expense	282,233	303,526
Grants / Subcontracts	117,539	-
Loss on Redemption	703,237	1,237,630
Total Operating Expenses	$ 42,459,365	$ 40,995,353
Operating Income (Loss) Before Transfers	6,406,337	2,024,184
Operating Transfers In(Out)	-	-
Increase (Decrease) in Net Assets	6,406,337	2,024,184
Net Assets, Beginning of Year	131,554,023	129,529,839
Net Assets, End of Year	$ 137,960,360	$ 131,554,023

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

	FY 2005	FY 2004
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	$ 215,955	$ 197,792
Collections on Loans and Interest on Loans	134,465,707	174,862,549
Cash payments for Loans	(162,433,374)	(154,907,692)
Federal Financial Assistance Receipts	396,720	251,451
Receipts for Grants and Contributions	117,539	260,225
Payments to Suppliers for Goods and Services	(3,683,108)	(3,387,296)
Payments to Employees	(909,996)	(805,625)
Other Operating Revenues	10,775	8,613
Net Cash Provided (Used) by Operating Activities	$ (31,819,782)	$ 16,480,017
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	$ (122,322,868)	$ (193,191,105)
Proceeds from Issuance of Bonds and Notes	216,385,000	161,800,000
Payment of Bond Issuance Costs	(2,159,579)	(1,765,118)
Premium Paid on Refunding Bonds	4,416,754	3,028,840
Good Faith Deposit being Held	(680,000)	(27,000)
Net Cash Provided (Used) by Noncapital Financing Activities	$ 95,639,307	$ (30,154,383)
CASH FLOWS FROM CAPITAL ACTIVITIES		
Purchase of fixed assets	$ (45,000)	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	$ (1,000,704,058)	$ (1,291,190,564)
Proceeds from Sales or Maturities of Investments	927,737,555	1,296,235,053
Interest on Investments	7,742,593	8,554,765
Arbitrage Rebate Tax	(43,159)	(417,244)
Net Cash Provided (Used) by Investing Activities	$ (65,267,069)	$ 13,182,010
Net Increase (Decrease) in Cash and Cash Equivalents	$ (1,492,544)	$ (492,356)
Cash and Cash Equivalents, Beginning Balance	$ 7,264,131	$ 7,756,487
Cash and Cash Equivalents, Ending Balance	$ 5,771,587	$ 7,264,131

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	FY 2005	FY 2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 6,406,337	$ 2,024,184
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	39,736	38,142
Amortization	853,908	1,595,293
Interest Expense	36,701,376	34,998,763
Interest on Investments	(8,061,487)	(8,415,135)
Arbitrage Rebate Tax	282,232	303,526
(Incr) Decr in Fair Value of Investments	(2,906,138)	2,230,748
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	(62,345,980)	(13,926,457)
Decr (Incr) in Other Assets	(153,077)	805,983
Incr (Decr) in Accounts Payable	1,468	(137,452)
Incr (Decr) in Deferred Reservation & Disc. Fe	(2,653,089)	(3,049,339)
Incr (Decr) in Compensated Absences Payabl	14,932	11,761
Net Cash Provided (Used) by Operating Activities	$ (31,819,782)	$ 16,480,017

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1,500,000,000 ($975 million prior to October 1, 2003). The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached for administrative purposes to the Housing Division, Department of Commerce.

Basis of Presentation:
The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). During fiscal year 2002 the Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and nonoperating revenues and expenses, and the statement of cash flows. In addition, the "Management's Discussion and Analysis" precedes the financial statements as required supplementary information. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. The financial statements of the Board are presented on a combined basis. The combining financial information can be found in other supplemental information.

Reporting Entity:
In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses.

The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

Net Assets:
Restricted Net Assets - Effective June 30, 2005, the Board early implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46 – Net Assets Restricted by Enabling Legislation. Net Assets are considered restricted if they are limited as to the manner in or purpose for which they may be used. The Combined Statement of Revenues, Expenses and Changes In Net Assets reports $137,879,479 of restricted net assets, of which $137,879,479 is restricted by enabling legislation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes. As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

Revenue and Expense Recognition:
Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:
The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds - These funds, established under two separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development.

The accompanying combining financial statements include the activity of both Single Family Mortgage Program Funds. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The Federal Housing Administration must insure mortgage loans originated prior to December 1992.

On November 10, 1998, the Board issued $1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the combining financial statements, includes activity for both Indentures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Structure - continued

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Affordable Housing Revolving Loan Account - Under MCA 90-6-133, a Revolving Loan Account was established. The affordable housing revolving loan account was established in the state special revenue fund in the state treasury. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund effective July 1, 2003. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. House Bill 57 of the 2001 Legislature authorized the transfer of $500,000 from the Federal Housing and Urban Development Section 8 administrative fee reserve account to this account. In addition, House Bill 273 of the 2001 Legislature allocated $3,415,928 of the Temporary Assistance to Needy Families (TANF) block grant to the Board to be used for purposes authorized by the block grant. Senate Bill 6 of the 2002 Special Session limited the transfer to $700,000.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool. Cash and equivalents are described in Note 2 of these financial statements.

Investments:

Effective June 30, 2005, The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in Note 4 of these financial statements.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgment, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Mortgage Loans Receivable - continued

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Capital Assets:

Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 4 to 6 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets is $5,000. Purchases under this threshold are recorded as expenses in the current period.

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:

The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash is held by trustees or by the State of Montana Treasury as cash or short-term investments. The State's Short Term Investment Pool (STIP) balances are covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 2005 and 2004, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	2005	2004
Program Funds*	$ 5,479,445	$ 7,057,724
Deposited with State Treasury	292,143	206,407
	$ 5,771,588	$ 7,264,131

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at $1 per unit. Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Montana Board of Investments (BOI) has a policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair market value to report net assets to compute unit values. The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable rate (floating rate) instruments.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

On June 30, 2005 and June 30, 2004, there were no securities on loan.

NOTE 4. INVESTMENTS

Effective June 30, 2005, The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

Montana statute grants the Board the power to invest any funds not required for immediate use, subject to any agreements with its bondholders and note holders. The Board conducts its investing according to an investment policy which is annually reviewed and follows bond indenture, Internal Revenue Code, and state statutes. The policy prohibits the Board from investing in leveraged investments, including but not limited to derivatives. The Board's policy follows state law by limiting investments to following:

- Direct obligations or obligations guaranteed by the United States of America
- Indebtedness issued or guaranteed by Government Sponsored Entities such as Federal Home Loan Bank System, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation, for example.
- Certificates of Deposit insured by the Federal Deposit Insurance Corporation.
- Guaranteed Investment Agreements or Repurchase Agreements

Credit Risk

Credit risk is the risk that the other party to an investment will not fulfill its obligations. Board investment policy mitigates this risk by requiring financial institutions to be rated in either of the two highest rating categories by Standard & Poor's and Moody's Investors Services. GASB 40 requires investment ratings be displayed. Accordingly, the table included in this note identifies investment ratings of individual debt investments where available or NR (not rated) to indicate the investment is unrated.

Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment with a single investment provider. Board investment policy follows the prudent expert principle as contained in Chapter 17, Part 6, Montana Code Annotated. This principle instructs investing entities to diversify investment holding to minimize the risk of loss. The table included in this note displays both investment provider and investment source diversity.

NOTE 4. INVESTMENTS - continued

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.
Board investment policy requires that investment contracts and repurchase agreements be fully collateralized with securities and cash held by the provider's agent and confirmed by the Board's trustee as required by the bond indentures. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment policy does not explicitly address interest rate risk. However, the policy indirectly speaks about interest rate risk by stating that investments are to be held to maturity and not for the intention of generating investment return. Typically, long-term investments are only sold as a result of refunding a bond issue or to meet liquidity needs. The following table displays Effective Duration for appropriate investment types or NA to indicate interest rate risk is not applicable. All funds and component units of the State of Montana are required to use the duration method to report interest rate risk.

Investment Type & Source	Fair Value June 30, 2005	Moody's Rating	Standard & Poor's Rating	Effective Duration
Investment Contracts				
AIG Matched Funding Corp	$ 25,494,655	NR	NR	NA
Bayerische Landesbank	28,491,070	NR	NR	NA
Société Générale *	76,031,179	NR	NR	NA
Trinity Plus Funding Co.	10,162,107	NR	NR	NA
Government Sponsored Entities				
Federal Home Loan Bank	$ 26,296,278	Aaa	AAA	1.01
Federal National Mortgage Assoc.	28,675,830	Aaa	AAA	10.46
Federal Home Loan Mortgage Corp.	7,486,757	Aaa	AAA	1.04
U. S. Treasury	$ 7,485,560	NA	NA	10.37
Trustee Money Market Accounts	$ 3,761,518	NA	NA	NA

* As of June 30, 2005 original, unexpended bond proceeds of $ 74,598,378 were on deposit in the 2005A program acquisition fund to be used for the purchase of Single Family Mortgage loans. The 2005 A bonds were issued on May 17, 2005.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	2005	2004
Mortgage loan receivables:		
Single Family Program	$655,034,346	$591,339,132
Multifamily Program	15,712,910	17,499,128
Housing Trust Program	1,488,225	1,162,110
Affordable Revolving Loan Account	2,385,496	2,274,627
	674,620,977	612,274,997
Net mortgage discounts and deferred reservation fees	9,435	(2,643,655)
Allowance for loan losses and real estate owned (note 6)	(300,000)	(300,000)
	$674,330,412	$609,331,342

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 2003	300,000
Provision	45,140
Less: Net loans charged off	(45,140)
Balance, June 30, 2004	300,000
Provision	11,750
Less: Net loans charged off	(11,750)
Balance, June 30, 2005	$ 300,000

The allowance for loan losses includes $200,000 at June 30, 2005 and 2004 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held no real estate owned properties as of June 30, 2005 and two real estate owned properties as of June 30, 2004.

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment. Balances are as follows:

	2005	2004
Capital Assets - Equipment	$ 87,917	$87,917
Capital Assets - Software	369,264	324,263
Accumulated depreciation	(376,300)	(336,563)
Net capital assets	$ 80,881	$ 75,617

Depreciation and amortization expense included in general and administrative expense was $39,737 and $38,142 for the years ended June 30, 2005 and 2004 respectively.

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	Original Amount	2005	2004
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 June 1, 2030 and December 1, 2037.	$91,360,000	$42,190,000	$48,865,000
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031.	60,000,000	21,220,000	27,315,000
2000			
Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032.	87,695,000	20,115,000	28,650,000
2000			
Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031.	71,940,000	38,580,000	47,360,000
2001			
Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	71,000,000	39,015,000	47,745,000
2002			
Series A-1 and A-2 serial and term bonds 1.70% to 5.60% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	24,500,000	29,825,000
Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, and June 1, 2034.	52,190,000	41,425,000	47,335,000

NOTE 8. BONDS PAYABLE, NET - continued

Original	Amount	2005	2004
2005			
Series A serial and term bonds 2.80% to 5.60% maturing in scheduled semi-annual installments to December 1, 2013, December 1, 2030, December 1, 2035, and June 1,2036.	93,785,000	93,785,000	-
Bonds outstanding Single Family I		$320,830,000	$277,095,000
Unamortized bond premium		1,938,900	-
Total bonds outstanding Single Family I		$ 322,768,900	$277,095,000
Single Family II Mortgage Bonds:			
1985			
Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	39,999,625	1,110,860	1,530,330
Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	760,000	930,000
1994			
Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	1,975,000	3,610,000
1995			
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	29,290,000	33,950,000
1996			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, June 1, 2016, June 1, 2024, and December 1, 2028.	65,000,000	13,325,000	17,165,000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	23,290,000	28,535,000

NOTE 8. BONDS PAYABLE, NET - continued

Original	Amount	2005	2004
1998			
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	29,760,000	38,725,000
2003			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	49,850,000	52,185,000
Series B-1 and B-2 serial and term bonds 1.10% to 4.50% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2024, December 1, 2025, December 1, 2026, December 1, 2027, December 1, 2028, December 1, 2032, December 1, 2033, December 1, 2034, December 1, 2041, and December 1, 2042.	70,700,000	66,960,000	70,485,000
Series C serial and term bonds 1.45% to 5.05% maturing in scheduled semi-annual installments to June 1, 2023, December 1, 2023, December 1, 2028, and December 1, 2034.	40,500,000	38,770,000	40,360,000
2004			
Series A serial and term bonds 1.40% to 5.00% maturing in scheduled semi-annual installments to December 1, 2023, June 1, 2024, June 1, 2029, December 1, 2029, and June 1, 2035.	50,600,000	49,145,000	50,600,000
Series B serial and term bonds 1.85% to 5.75% maturing in scheduled semi-annual installments to December 1, 2014, June 1, 2015, December 1, 2024, December 1, 2030 and December 1, 2035.	68,000,000	67,510,000	-
Series C serial and term bonds 2.00% to 5.00% Maturing in scheduled semi-annual installments To December 1, 2016, December 1, 2025, December 1, 2030, June 1, 2035, and December 1, 2035.	54,600,000	54,590,000	-
Bonds outstanding Single Family II		426,335,860	338,075,330
Unamortized bond premium / discount		5,527,793	3,454,170
Total bonds outstanding Single Family II		$ 431,863,653	$ 341,529,500
Total Single Family Mortgage bonds payable, net		$ 754,632,553	$ 618,624,500

NOTE 8. BONDS PAYABLE, NET - continued

All single-family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

	Original Amount	2005	2004
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	$4,865,000	895,000	$925,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	110,000	1,745,000
1996			
Series A, 4.10% to 6.15% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2011, and on August 1, 2016, and August 1, 2026.	890,000	760,000	780,000
1998			
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,275,000	1,300,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039.	9,860,000	8,950,000	9,125,000
Total bonds outstanding		11,990,000	13,875,000
Unamortized bond premium		(43,065)	(44,381)
Total Multifamily Mortgage bonds payable, net		$ 11,946,935	$ 13,830,619
Combined total bonds payable, net		$ 766,579,488	$ 632,455,119

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The 1998A Multifamily bonds are general obligations of the Board.

NOTE 8. BONDS PAYABLE, NET - continued

The following is a primary summary of bond principal and interest requirements as of June 30, 2005:

Fiscal Years Ending	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
2006	$ 47,646,060	$ 1,082,378	$ 9,855,000	$ 38,873,438
2007	49,806,452	970,786	12,490,000	38,287,238
2008	49,993,767	971,144	13,175,000	37,789,911
2009	50,358,171	970,847	14,100,000	37,229,017
2010	50,083,138	973,768	14,450,000	36,606,907
2011-15	253,264,737	4,652,024	86,055,000	171,861,762
2016-20	254,682,832	3,984,228	110,505,024	148,162,036
2021-25	254,014,309	3,431,124	141,465,000	115,980,433
2026-30	248,699,692	3,202,680	178,310,000	73,592,371
2031-35	174,228,266	2,677,164	149,075,000	27,830,429
2036-40	26,104,973	2,734,135	24,715,000	4,124,108
2041-45	6,770,103	661,350	6,950,000	481,453
Total	$ 1,465,652,499	$ 26,311,627	$ 761,145,024	$ 730,819,102

Cash paid for interest expenses during the years ending June 30, 2005 and 2004 was $ 36,956,738 and $35,168,270, respectively.

Changes in Bonds Payable

	6/30/2004 Balance	Increases	Decreases	6/30/2005 Balance
Single Family	$ 618,624,500	$ 216,385,000	$ (80,376,947)	$ 754,632,553
Multi Family	13,830,619	-	(1,883,684)	11,946,935
Total	$ 632,455,119	$ 216,385,000	$ (82,260,631)	$ 766,579,488

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2005 and 2004 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	2005	2004
Single Family I		
December 1	$25,060,000	$53,140,000
June 1	20,730,000	31,000,000
	45,790,000	84,140,000
Single Family II		
October 1		16,965,000
December 1	19,275,231	12,716,087
June 1	12,263,694	13,470,552
	31,538,925	43,151,639
Single Family III		
October 1	-	355,000
December 1	-	175,000
		530,000
Multifamily	1,410,000	1,540,000
Total	$78,738,925	$129,361,639

NOTE 9. LOSS ON REDEMPTION continued

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of $703,237 and $1,237,631 in 2005 and 2004, respectively.

NOTE 10. COMMITMENTS

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $4,793,004 from the issuance of the 2005 Series A Bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	$1,778,226
Glacier Affordable Housing Program	1,573,296
City of Billings	4,398,613
Neighborhood Housing Services MT Home Ownership Network	4,287,722
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	1,239,404
Habitat for Humanity	775,711
City of Terry	89,510
City of Lewistown	840,000
North Missoula Community Development	2,430,700
First Time Homebuyers Savings Account	1,327,815
USDA Rural Housing Development	431,006
USDA Rural Self-Help	378,466
Native American Housing Loan Guarantee	986,240
Dream Montana Project	314,074
District XI Human Resource Council	4,215,651
Lot Refinance	1,155,224
Bozeman HRDC	1,295,300
GR8 Hope	2,500,000
Foreclosure Prevention	50,000
Town of Bridger	235,600
Teachers Conventional Loans	1,000,000
GAP Financing Program	1,000,000
Disabled Affordable Accessible Homeownership Program	593,549
Total Single Family commitments	$33,440,493

Other Commitments--Single Family I	
Reverse Annuity Mortgage Program	$350,000

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	
Total Multifamily Commitments	$225,441

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program	$2,284,845

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 11. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The Board of Housing and its employees contribute to the Public Employees' Retirement System (PERS). PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

Defined Benefit Retirement Plan: The Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

Defined Contribution Retirement Plan: The Defined Contribution Retirement Plan (DCRP), created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, and the investment earnings less administrative costs.

The PERS issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park Suite 220
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plans are required and determined by State law.

The contribution rates for 2005 expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
6.90%	6.90%	13.80%

The amounts contributed to the plans during the years ended June 30, 2003, 2004, and 2005 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by State law, were as follows:

Fiscal Year 2003 - $40,152
Fiscal Year 2004 - $42,603
Fiscal Year 2005 - $47,719

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 12. CONTINGENT ARBITRAGE REBATE LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

There was $43,160 in arbitrage rebate cash payments to the Treasury Department in fiscal year 2005. During fiscal year ended June 30, 2004, there was $417,244 in arbitrage rebate cash payments to the Treasury Department. The liabilities are $1,262,083 and $1,023,009 as of June 30, 2005 and 2004, respectively.

NOTE 13. SUBSEQUENT EVENTS

Conduit Debt Issuance

On July 1, 2005, the Board of Housing issued $516,000 of Single Family Mortgage Revenue Bonds Series 2005A-1 (Montana Homeownership Network Pool Program). The bonds are limited-obligation, taxable revenue bonds issued by the board on behalf of Neighborhood Housing Services, Incorporated of Great Falls, Montana and the Montana Homeownership Network Program. The Board approved issuing up to $2,000,000 for the program. Bond proceeds finance mortgages for low and moderate income persons thereby enabling them to purchase homes. The bonds are not general obligations of the Board but special limited obligations payable solely from pledged revenues and assets. The Board is not obligated to make payment on the bonds from any of its assets other than those revenues and assets so pledged. The Board has no taxing power. The bonds are not a debt of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest. The bonds will be privately placed with local participating banks.

Board Authorization for Debt Issuance

The Board has authorized the future sale of $1,000,000 of taxable general obligation bonds of the board to finance second mortgage shared appreciation loans to provide down payment and closing cost assistance to teachers in Ravalli County who are participating in the Board's single family mortgage purchase program. Such bonds will be privately placed with a local bank. As of October 19, 2005 no bonds have been sold.

On October 19, 2005, the Board entered into a purchase contract with UBS Financial Services Inc. to sell the Montana Board of Housing Single Family Program Bonds, Series 2005 RA. The purchase price of the bonds is $30,280,000. The bonds will be delivered by the Board on November 16, 2005. Bond proceeds will be used to refinance existing debt. The 2005 Series RA Bonds are general obligations of the Board, secured by and payable from moneys pledged for the payment thereof under the Indenture, including all revenues, assets and moneys of the Board not otherwise pledged to the holders of particular notes or bonds of the Board. Neither the faith and credit nor the taxing power of the State of Montana or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the 2005 Series RA Bonds. The State of Montana is not liable for the 2005 Series RA Bonds, and the 2005 Series RA Bonds are not a debt of the State of Montana. The Board has no taxing power.

In October 2005, the Board authorized a $1,250,000 Mortgage Credit Certificate Program. The Board expects to begin issuing credits for mortgage loans in the aggregate principal amount of $1,250,000 based on a certificate credit rate of 20%.

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

The Board periodically chooses to refund all or a portion of the Board's outstanding bonds when it is economically advantageous to do so. Refundings involve the issuance of new debt whose proceeds are used to repay previously issued debt. The Board performed no refundings during the period from July 1, 2004 to June 30, 2005.

Under GASB 23, deferred costs, such as issuance costs or unamortized bond premiums, are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The following costs associated with prior refundings were deferred and are being amortized under the GASB 23 guidelines:

Prior years' Refundings:	
Unamortized Deferred refunding costs from prior years' refunding	$1,365,779
Total unamortized	$1,365,779

NOTE 15. RELATED PARTY TRANSACTIONS

Certain Board of Housing directors are officers of community organizations that are eligible to participate in Board sponsored or operated programs.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2004)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only) FY 2005	FY 2004
ASSETS								
Current Assets								
Cash and Cash Equivalents	$ 1,187,881	$ 2,731,163	$ 3,919,045	$ 265,471	$ 1,402,535	$ 184,537	$ 5,771,588	$ 7,264,131
Investments	76,169,889	39,747,526	115,917,415	3,608,143	-	-	119,525,558	46,340,278
Mortgage Loans Receivable	4,173,497	7,178,366	11,351,862	594,662	-	10,906	11,957,430	10,584,633
Interest Receivable	1,795,268	2,307,517	4,102,785	99,534	262,855	54,540	4,519,714	4,075,113
Due from Primary Government	2,618	2,619	5,237	-	-		5,237	1,073
Due from Other Governments		32,639	32,639				32,639	
Prepaid Expense	85,269	110,164	195,433	7,439	5,938	-	208,810	181,418
Total Current Assets	$ 83,414,422	$ 52,109,994	$ 135,524,416	$ 4,575,249	$ 1,671,328	$ 249,983	$ 142,020,976	$ 68,446,646
Noncurrent Assets								
Investments	$ 43,747,421	$ 51,740,294	$ 95,487,715	$ 1,334,135	$ -	$ -	$ 96,821,850	$ 94,134,509
Mortgage Loans Receivable	233,200,782	410,191,137	643,391,919	15,118,248	1,488,225	2,374,591	662,372,983	598,746,710
Deferred Bond Issuance Costs, Net	3,067,811	4,180,786	7,248,598	186,753	-	-	7,435,350	6,284,313
Capital Assets, Net	36,684	42,830	79,515	683	683	-	80,881	75,617
Total Noncurrent Assets	$ 280,052,699	$ 466,155,047	$ 746,207,746	$ 16,639,819	$ 1,488,908	$ 2,374,591	$ 766,711,064	$ 699,241,149
TOTAL ASSETS	$ 363,467,121	$ 518,265,042	$ 881,732,162	$ 21,215,068	$ 3,160,236	$ 2,624,574	$ 908,732,040	$ 767,687,795
LIABILITIES								
Current Liabilities								
Accounts Payable	$ 269,062	$ 174,577	$ 443,639	$ 11,917	$ 5,462		$ 461,019	$ 335,522
Due to Primary Government	11,017	11,017	22,034	1,614	1,467	-	25,114	26,777
Due to Other Component Unit	75	75	150	-	-	-	150	4,873
Due to Other Government		32,639	32,639				32,639	
Property Held in Trust	-	1,755	1,755	1,500	-	-	3,255	683,005
Accrued Interest - Bonds Payable	1,627,113	1,729,138	3,356,251	300,006	-	-	3,656,257	3,003,280
Bonds Payable, Net	3,770,000	5,715,000	9,485,000	370,000	-	-	9,855,000	7,781,560
Arbitrage Rebate Payable to U.S. Treasury Department	388,222	55,011	443,233	-	-	-	443,233	47,955
Accrued Compensated Absences	26,647	26,647	53,295	9,525	6,184	-	69,004	53,702
Total Current Liabilities	$ 6,092,136	$ 7,745,859	$ 13,837,995	$ 694,562	$ 13,114	$ -	$ 14,545,671	$ 11,936,674
Noncurrent Liabilities								
Bonds Payable, Net	$ 318,998,900	$ 426,148,653	$ 745,147,553	$ 11,576,935	$ -	$ -	$ 756,724,488	$ 624,673,559
Deferred Refunding Costs	(854,524)	(511,255)	(1,365,779)	-	-	-	$ (1,365,779)	(1,500,335)
Arbitrage Rebate Payable to U.S. Treasury Department	179,945	638,905	818,850	-	-	-	818,850	975,054
Accrued Compensated Absences	18,710	18,710	37,420	6,688	4,342	-	48,450	48,820
Total Noncurrent Liabilities	$ 318,343,031	$ 426,295,013	$ 744,638,044	$ 11,583,623	$ 4,342	$ -	$ 756,226,009	$ 624,197,098
TOTAL LIABILITIES	$ 324,435,167	$ 434,040,872	$ 758,476,039	$ 12,278,185	$ 17,456	$ -	$ 770,771,680	$ 636,133,772
NET ASSETS								
Invested in Capital Assets, Net	$ 36,684	$ 42,830	$ 79,514	$ 683	$ 683	$ -	$ 80,880	$ 75,617
Restricted for Bondholders:								
Unrealized (losses) gains on inv(	-	4,564,519	4,564,519	-	-	-	4,564,519	1,574,795
Single Family Programs	30,290,330	54,531,268	84,821,598	-	857,251	-	85,678,849	79,865,024
Various Recycled Mortgage Pro(	8,354,941	25,085,552	33,440,493	-	-	-	33,440,493	37,136,710
Multifamily Programs	-	-	-	8,710,759	-	-	8,710,759	8,415,832
Multifamily Project Commitments	-	-	-	225,441	-	-	225,441	235,011
Reverse Annuity Mortgage Progr	350,000	-	350,000	-	2,284,845	-	2,634,845	1,830,631
Restricted for Affordable Revolving I	-	-	-	-	-	2,624,574	2,624,574	2,420,403
TOTAL NET ASSETS	$ 39,031,955	$ 84,224,169	$ 123,256,124	$ 8,936,883	$ 3,142,779	$ 2,624,574	$ 137,960,360	$ 131,554,023

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only) FY 2005	Combined Totals (Memorandum Only) FY 2004
OPERATING REVENUES								
Interest Income - Mortgage Loans	$ 15,172,551	$ 20,891,518	$ 36,064,069	$ 975,869	$ 69,431	$ 37,446	$ 37,146,816	$ 36,103,048
Interest Income - Investments	3,346,019	4,524,482	7,870,502	166,616	23,699	671	8,061,488	8,415,136
Fee Income	1,928	8,341	10,270	-	208,850		219,119	214,712
Federal Financial Assistance	-	-	-	237,592	-	166,233	403,825	251,451
Net Increase (Decrease)			-					
in Fair Value of Investments	-	2,906,138	2,906,138	-	-	-	2,906,138	(2,230,748)
Grants and Contributions		117,539	117,539	-	-		117,539	265,625
Other Income	3,636	3,636	7,272	55	3,449	-	10,777	313
Total Operating Revenues	$ 18,524,134	$ 28,451,655	$ 46,975,789	$ 1,380,134	$ 305,429	$ 204,351	$ 48,865,702	$ 43,019,537
OPERATING EXPENSES								
Interest on Bonds	$ 14,965,879	$ 20,566,710	$ 35,532,589	$ 765,875	$ -	$ -	$ 36,298,463	$ 34,848,147
Servicer Fees	925,672	1,432,461	2,358,133	18,062	-	-	2,376,194	2,157,072
Contracted Services	220,897	307,925	528,822	30,054	16,684	180	575,740	616,917
Amortization of Bond Issuance Costs	222,612	317,515	540,127	13,459	-	-	553,586	508,279
General and Administrative	612,589	616,178	1,228,767	170,569	153,037	-	1,552,373	1,323,782
Arbitrage Rebate Expense	64,125	218,108	282,233	-	-	-	282,233	303,526
Grants / Subcontracts	-	117,539	117,539	-	-	-	117,539	-
Loss on Redemption	432,740	256,927	689,667	13,570	-	-	703,237	1,237,630
Total Operating Expenses	$ 17,444,513	$ 23,833,362	$ 41,277,876	$ 1,011,588	$ 169,721	$ 180	$ 42,459,365	$ 40,995,353
Operating Income (Loss) Before Transfers	1,079,621	4,618,292	$ 5,697,913	368,545	135,708	204,171	6,406,337	2,024,184
Operating Transfers In(Out)				-	-	-	-	-
Increase (Decrease) in Net Assets	1,079,621	4,618,292	$ 5,697,913	368,545	135,708	204,171	6,406,337	2,024,184
Net Assets, Beginning of Year	37,952,334	79,605,877	117,558,211	8,568,338	3,007,071	2,420,403	131,554,023	129,529,839
Net Assets, End of Year	$ 39,031,955	$ 84,224,169	$ 123,256,124	$ 8,936,883	$ 3,142,779	$ 2,624,574	$ 137,960,360	$ 131,554,023

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only) FY 2005	FY 2004
CASH FLOWS FROM OPERATING ACTIVITY								
Receipts for Sales and Services	$ -	$ -	$ -	$ -	$ 208,850	$ 7,105	$ 215,955	$ 197,792
Collections on Loans and Interest on Loans	65,474,423	65,823,628	131,298,051	2,999,183	77,120	91,353	134,465,707	174,862,549
Cash payments for Loans	(21,015,137)	(140,659,762)	(161,674,899)	(225,106)	(369,241)	(164,128)	(162,433,374)	(154,907,692)
Federal Financial Assistance Receipts	-	-	-	237,592	-	159,128	396,720	251,451
Receipts for Grants and Contributions	-	117,539	117,539	-	-	-	117,539	260,225
Payments to Suppliers for Goods and Services	(1,397,082)	(2,073,197)	(3,470,279)	(125,487)	(88,037)	695	(3,683,108)	(3,387,296)
Payments to Employees	(367,850)	(367,849)	(735,699)	(89,958)	(84,339)	-	(909,996)	(805,625)
Other Operating Revenues	3,636	3,636	7,272	54	3,449	-	10,775	8,613
Net Cash Provided (Used) by Operating Activities	$ 42,697,990	$ (77,156,005)	$ (34,458,015)	$ 2,796,278	$ (252,198)	$ 94,153	$ (31,819,782)	$ 16,480,017
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Payment of Principal and Interest on Bonds and Notes	$ (64,671,508)	$ (54,953,838)	$ (119,625,346)	$ (2,697,522)	$ -	$ -	$ (122,322,868)	$ (193,191,105)
Proceeds from Issuance of Bonds and Notes	93,785,000	122,600,000	216,385,000	-	-	-	216,385,000	161,800,000
Payment of Bond Issuance Costs	(847,963)	(1,311,616)	(2,159,579)	-	-	-	(2,159,579)	(1,765,118)
Premium Paid on Refunding Bonds	1,938,900	2,477,854	4,416,754	-	-	-	4,416,754	3,028,840
Good Faith Deposit being Held	-	(680,000)	(680,000)	-	-	-	(680,000)	(27,000)
Net Cash Provided (Used) by Noncapital Financing Activities	$ 30,204,429	$ 68,132,400	$ 98,336,829	$ (2,697,522)	$ -	$ -	$ 95,639,307	$ (30,154,383)
CASH FLOWS FROM CAPITAL ACTIVITIES								
Purchase of fixed assets	$ (22,500)	$ (22,500)	$ (45,000)				$ (45,000)	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchase of Investments	$ (254,723,816)	$ (736,812,242)	$ (991,536,058)	$ (9,168,000)	$ -	$ -	$ (1,000,704,058)	$ (1,291,190,564)
Proceeds from Sales or Maturities of Investments	178,512,414	741,086,644	$ 919,599,058	8,138,497	-	-	927,737,555	1,296,235,053
Interest on Investments	3,013,581	4,521,862	7,535,443	182,780	23,699	671	7,742,593	8,554,765
Arbitrage Rebate Tax	(43,159)	-	(43,159)	-	-	-	(43,159)	(417,244)
Net Cash Provided (Used) by Investing Activities	$ (73,240,980)	$ 8,796,264	$ (64,444,716)	$ (846,723)	$ 23,699	$ 671	$ (65,267,069)	$ 13,182,010
Net Increase (Decrease) in Cash and Cash Equivalents	$ (361,061)	$ (249,841)	$ (610,902)	$ (747,967)	$ (228,499)	$ 94,824	$ (1,492,544)	$ (492,356)
Cash and Cash Equivalents,beginning bal.	$ 1,548,942	$ 2,981,004	$ 4,529,946	$ 1,013,438	$ 1,631,034	$ 89,713	$ 7,264,131	$ 7,756,487
Cash and Cash Equivalents, ending bal.	$ 1,187,881	$ 2,731,163	$ 3,919,044	$ 265,471	$ 1,402,535	$ 184,537	$ 5,771,587	$ 7,264,131

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only) FY 2005	Combined Totals (Memorandum Only) FY 2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES								
Operating Income	$ 1,079,621	$ 4,618,292	$ 5,697,913	$ 368,544	$ 135,708	$ 204,172	$ 6,406,337	$ 2,024,184
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:								
Depreciation	17,675	21,264	38,939	398	399	-	39,736	38,142
Amortization	655,352	170,211	825,563	28,345	-	-	853,908	1,595,293
Interest Expense	14,965,878	20,970,940	35,936,818	764,558	-	-	36,701,376	34,998,763
Interest on Investments	(3,346,019)	(4,524,482)	(7,870,501)	(166,616)	(23,699)	(671)	(8,061,487)	(8,415,135)
Arbitrage Rebate Tax	64,125	218,107	282,232	-	-	-	282,232	303,526
(Incr) Decr in Fair Value of Investments	-	(2,906,138)	(2,906,138)	-	-	-	(2,906,138)	2,230,748
Change in Assets and Liabilities:								
Decr (Incr) in Mortgage Loans Receivable	29,386,300	(93,081,515)	(63,695,215)	1,786,218	(326,114)	(110,869)	(62,345,980)	(13,926,457)
Decr (Incr) in Other Assets	232,415	(361,206)	(128,791)	14,762	(39,694)	646	(153,077)	805,983
Incr (Decr) in Accounts Payable	(29,000)	31,138	2,138	(1,395)	(150)	875	1,468	(137,452)
Incr (Decr) in Deferred Reservation & Disc. Fees	(334,415)	(2,318,674)	(2,653,089)	-	-	-	(2,653,089)	(3,049,339)
Incr (Decr) in Compensated Absences Payable	6,059	6,058	12,117	1,462	1,353	-	14,932	11,761
Net Cash Provided by (Used for) Operating Activities	$ 42,697,991	$ (77,156,005)	$ (34,458,014)	$ 2,796,276	$ (252,197)	$ 94,153	$ (31,819,782)	$ 16,480,017

MONTANA
Department of Commerce

MONTANA BOARD OF HOUSING
P.O. Box 200528 ★ Helena, Montana 59620-0528
Phone: 406-841-2840 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702
http://housing.state.mt.us

November 10, 2005

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

We have received and reviewed the financial-compliance audit of the Montana Board of Housing for the two fiscal years ended June 30, 2005. We are pleased with the unqualified opinion. We appreciate the professionalism and courtesy with which the audit was conducted. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,

Bruce Brensdal
Executive Director